

March 24, 2025

Circular Letter to:

Insurance Companies Registered Under the Insurance Act, 2018
Association of Trinidad and Tobago Insurance Companies (ATTIC)
The Institute of Chartered Accountants of Trinidad and Tobago (ICATT)
Caribbean Actuarial Association (CAA)

REF: CB-OIFI-933/2025

INDUSTRY CONSULTATION
GUIDELINE ON THE MANAGEMENT OF LIQUIDITY RISK FOR INSURERS
AND LIQUIDITY RISK RETURN

In accordance with section 82 of the Insurance Act, 2018 (Act), insurers and financial holding companies (FHCs) are required to maintain adequate and appropriate forms of liquidity, as it is important that insurers/FHCs fulfil expected and unexpected payment obligations and funding needs. Liquidity risk management is therefore essential to the proper operation of an insurer/FHC, the protection of policyholders and financial stability.

The Central Bank of Trinidad and Tobago (Central Bank/Bank), as regulator, is responsible for, inter alia, maintaining confidence in, and promoting the soundness and stability of, the financial system. Effective management of liquidity risk of insurers/FHCs is critical to maintaining a safe and sound institution and by extension stability of the financial system.

Accordingly, the Central Bank has developed a draft Guideline on the Management of Liquidity Risk for Insurers (Guideline) and a draft Liquidity Risk Return (Return) to provide guidance on the management, monitoring and measuring of liquidity risk. The Guideline and Return have taken into consideration international best practice, including guidance on liquidity risk management set out by the International Association of Insurance Supervisors (IAIS) as it relates to the relevant Insurance Core Principles (ICPs).

1. Guideline on the Management of Liquidity Risk for Insurers (Guideline)

The Guideline seeks to address key areas such as board and senior management oversight, identification of liquidity risk, stress testing and liquidity contingency planning. The main objectives of the draft Guideline are to:

- a. outline the core elements and minimum requirements for the development of a robust liquidity risk management framework to assist insurers/FHCs in managing their liquidity risk; and
- b. establish the framework against which the Central Bank will assess the adequacy and appropriateness of liquidity for insurers/FHCs under section 82(1)(b) of the Act.

2. Liquidity Risk Return (Return)

The Return is intended to help insurers/FHCs measure and monitor their liquidity risk using two specific liquidity metrics:

- a. The Insurance Liquidity Ratio (ILR) is calculated by dividing the insurer's/FHC's available liquidity by its liquidity needs. The ratio measures the amount of highly liquid assets compared to the stressed liquidity needs over different time periods, based on stress tests.
- b. The Liquidity Excess/(Gap) examines the insurer's/FHC's liquidity over various time horizons by subtracting cash outflows from cash inflows. This analysis is conducted under both normal and stressed scenarios. By assessing the timing of cash inflows and outflows, any cash flow mismatches can be identified and highlighted.

As part of the consultation process, the Central Bank invites stakeholders to review and provide feedback on both the draft Guideline and Return, which are appended, and can also be accessed on the Bank's website at <https://www.central-bank.org.tt/core-functions/supervision/insurance-sector/draft-and-consultation-papers>. Kindly utilize the attached Feedback Form and submit via electronic mail to Liquidity@central-bank.org.tt by **May 23, 2025**.

The Central Bank anticipates your usual cooperation and looks forward to your feedback to ensure that there is a seamless implementation of the Guideline and Return by all insurers/FHCs.

Yours sincerely



Patrick Solomon
INSPECTOR OF FINANCIAL INSTITUTIONS

